

CITY OF HEREFORD, TEXAS

FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT

SEPTEMBER 30, 2010

CITY OF HEREFORD, TEXAS

SEPTEMBER 30, 2010

CONTENTS

PAGE

FINANCIAL SECTION

Independent Auditors' Report

3

Basic Financial Statements:

Statement of Net Assets

5

Statement of Activities

6

Balance Sheet - Governmental Funds

8

Statement of Revenues, Expenditures, and Changes

In Fund Balances - Governmental Funds

10

Statement of Revenues, Expenses, and Changes

In Fund Net Assets - Water and Sewer Fund

12

Statement of Cash Flows - Water and Sewer Fund

13

Statement of Fiduciary Net Assets

15

Statement of Changes in Fiduciary Net Assets

16

Notes to Financial Statements

17

SUPPLEMENTAL INFORMATION SECTION

Statement of Revenues, Expenditures, and Changes

In Fund Balances - Budget (GAAP Basis) and

Actual - General Fund

29

Combining Balance Sheet - Nonmajor

Governmental Funds

30

Combining Statement of Revenues, Expenditures,

And Changes in Fund Balances - Nonmajor

Governmental Funds

31

Schedule of Valuation and General Obligation

Debt History

32

Schedule of Tax Rate, Levy and Collection History

33

Schedule of General Obligation Debt Service Requirements

34

Schedule of Other General Debt Obligations

35

General Fund Revenues and Expenditures History

36

Schedule of Current Investments

37

Water and Sewer Fund Condensed Statement of Operations

38

FINANCIAL SECTION

Independent Auditors' Report

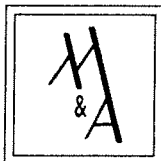
To the Honorable Mayor and
Members of the City Commission
City of Hereford, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hereford, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hereford, Texas, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



McGinty & Associates, LLP
Certified Public Accountants

205 W. 4th Street, Suite 201
Hereford, Texas 79045
(806) 364-6432

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hereford, Texas financial statements as a whole. The combining statements and other supplemental schedules on pages 30 through 38 are presented for purposes of additional analysis and are not a required part of the financial statements. These combining statements and other supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



Hereford, Texas
December 16, 2010

CITY OF HEREFORD, TEXAS

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Primary Government			Component Unit HEDC
	Govern- Mental Activities	Business- Type Activities	Total	
ASSETS				
Cash.....	\$ 84,384	\$ 1,822,750	\$ 1,907,134	\$ 424,597
Investments.....	472,122	1,296,436	1,768,558	2,283,936
Receivables(Net):				
Property Taxes	63,500	-	63,500	-
Accounts	198,559	482,746	681,305	-
Other	17,759	315	18,074	2,545
Internal Balances.....	716,382	(716,382)	-	-
Due from Component Unit....	10,409	-	10,409	-
Inventories.....	18,100	119,192	137,292	-
Restricted Assets.....	37,515	390,801	428,316	-
Deferred Charges.....	-	27,485	27,485	-
Capital Assets:				
Non-Depreciable	650,953	984,874	1,635,827	-
Depreciable, Net	<u>5,323,839</u>	<u>9,462,625</u>	<u>14,786,464</u>	<u>539</u>
Total Assets	<u>7,593,522</u>	<u>13,870,842</u>	<u>21,464,364</u>	<u>2,711,617</u>
LIABILITIES				
Accounts Payable.....	526,779	132,816	659,595	911
Accrued Liabilities.....	6,810	20,300	27,110	-
Deferred Revenue.....	-	28,855	28,855	-
Due to Primary Government..	-	-	-	10,409
Non-Current Liabilities:				
Due Within One Year	142,283	735,000	877,283	-
Due In More Than One Year	369,528	3,370,000	3,739,528	-
Deposits.....	-	218,089	218,089	-
Total Liabilities	<u>1,045,400</u>	<u>4,505,060</u>	<u>5,550,460</u>	<u>11,320</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	5,462,981	6,342,499	11,805,480	539
Restricted for:				
Debt Service	-	390,801	390,801	-
Police	30,465	-	30,465	-
Parks	12,975	-	12,975	-
Unrestricted.....	<u>1,041,701</u>	<u>2,632,482</u>	<u>3,674,183</u>	<u>2,699,758</u>
Total Net Assets	<u>\$ 6,548,122</u>	<u>\$ 9,365,782</u>	<u>\$15,913,904</u>	<u>\$ 2,700,297</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITIES YEAR ENDED SEPTEMBER 30, 2010

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 755,792	\$ 316,127	\$ 7,738	\$ -	\$ (431,927)
Public Safety	2,428,608	241,676	2,636	30,421	(2,153,875)
Streets and Public Works	1,271,640	22,725	-	36,664	(1,212,251)
Sanitation and Health	1,198,667	1,806,035	-	-	607,368
Parks and Recreation	1,458,292	333,843	46,144	-	(1,078,305)
Airport	401,034	151,111	14,123	-	(235,800)
Total Governmental					
Activities	7,514,033	2,871,517	70,641	67,085	(4,504,790)
Business-Type Activities:					
Water and Sewer Utilities	3,014,042	4,524,001	-	-	1,509,959
Total Business-Type					
Activities	3,014,042	4,524,001	-	-	1,509,959
Total Primary Government	\$10,528,075	\$ 7,395,518	\$ 70,641	\$ 67,085	\$ (2,994,831)
Component Unit:					
Hereford Economic					
Development Corp.....	\$ 137,696	-	-	-	(137,696)
Total Component Units	\$ 137,696	-	-	-	\$ (137,696)

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITIES (continued) YEAR ENDED SEPTEMBER 30, 2010

	Primary Government		Component
	Governmental	Business- Type Activities	Unit HEDC
	Activities	Total	
CHANGE IN NET ASSETS:			
Net (Expense) Revenue ...	\$ (4,504,790)	\$ 1,509,959	\$ (2,994,831)
General Revenues:			\$ (137,696)
Taxes:			
Property Taxes	1,674,736	-	-
Sales Taxes	1,193,518	-	593,510
Franchise Taxes	963,503	-	-
Motel Occupancy Taxes ..	127,245	-	-
Lease Income	-	77,818	-
Interest Income	6,371	17,556	19,017
Miscellaneous	16,100	-	-
Transfers	300,000	(300,000)	-
Total General Revenues			
and Transfers	4,281,473	(204,626)	612,527
Change in Net Assets ..	(223,317)	1,305,333	474,831
Net Assets - Beginning	6,771,439	8,060,449	2,225,466
Net Assets - Ending	\$ 6,548,122	\$ 9,365,782	\$ 2,700,297

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	General Fund	Other Governmental Funds	Total
<u>ASSETS</u>			
Cash.....	\$ 66,932	\$ 17,452	\$ 84,384
Investments.....	472,122	-	472,122
Receivables (Net):			
Property Taxes	63,500	-	63,500
Accounts	198,559	-	198,559
Other	8,845	8,914	17,759
Due from Other Funds.....	720,859	-	720,859
Due from Component Unit.....	10,409	-	10,409
Inventories.....	18,100	-	18,100
Restricted Assets.....	-	37,515	37,515
	<u> </u>	<u> </u>	<u> </u>
Total Assets.....	<u>\$1,559,326</u>	<u>\$ 63,881</u>	<u>\$1,623,207</u>
<u>LIABILITIES</u>			
Accounts Payable.....	\$ 510,815	\$ 15,964	\$ 526,779
Accrued Liabilities.....	6,810	-	6,810
Due to Other Funds.....	-	4,477	4,477
Deferred Revenue.....	58,823	-	58,823
Total Liabilities	<u>576,448</u>	<u>20,441</u>	<u>596,889</u>
<u>FUND BALANCES</u>			
Unreserved:			
Designated for Parks	-	12,975	12,975
Designated for Police	-	30,465	30,465
Undesignated	982,878	-	982,878
Total Fund Balances	<u>982,878</u>	<u>43,440</u>	<u>1,026,318</u>
Total Liabilities and Fund Balances	<u>\$1,559,326</u>	<u>\$ 63,881</u>	<u>\$1,623,207</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS (continued)
SEPTEMBER 30, 2010

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS:

Total Fund Balance - Total Governmental Funds	\$1,026,318
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$15,021,768, net of accumulated depreciation of \$9,046,976 are not financial resources and, therefore, are not reported in the funds	5,974,792
Long-term property tax receivables are not available to pay current period expenditures and, therefore, are deferred in the funds	58,823
Long-term liabilities of \$511,811 are not due and payable in the current period and are not reported in the funds	<u>(511,811)</u>
Net Assets of Governmental Activities	<u>\$6,548,122</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Other Governmental Funds	Total
<u>REVENUES:</u>			
Property Taxes.....	\$1,680,059	\$ -	\$1,680,059
Sales Taxes.....	1,193,518	-	1,193,518
Motel Occupancy Taxes.....	127,245	-	127,245
Franchise Taxes.....	963,503	-	963,503
Charges for Services.....	2,871,517	-	2,871,517
Grant Revenue.....	14,123	67,085	81,208
Interest Income.....	6,216	155	6,371
Contributions.....	10,374	46,144	56,518
Miscellaneous Revenue.....	16,100	-	16,100
	<u>6,882,655</u>	<u>113,384</u>	<u>6,996,039</u>
<u>EXPENDITURES:</u>			
Current:			
General Government	716,278	-	716,278
Public Safety	2,253,715	6	2,253,721
Streets and Public Works	1,177,898	-	1,177,898
Sanitation and Health	1,198,088	-	1,198,088
Parks and Recreation	1,270,904	16,335	1,287,239
Airport	242,198	-	242,198
Capital Outlay:			
Current Expenditures	708,118	97,888	806,006
Debt Service:			
Principal Retirement	152,564	-	152,564
Interest Charges	11,975	-	11,975
	<u>7,731,738</u>	<u>114,229</u>	<u>7,845,967</u>
<u>EXCESS (DEFICIT) OF REVENUES</u>			
<u>OVER EXPENDITURES.....</u>	<u>(849,083)</u>	<u>(845)</u>	<u>(849,928)</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Loan Proceeds.....	477,709	-	477,709
Transfers In.....	300,000	-	300,000
Transfers Out.....	-	-	-
	<u>777,709</u>	<u>-</u>	<u>777,709</u>
<u>NET CHANGE IN FUND BALANCES</u>	<u>(71,374)</u>	<u>(845)</u>	<u>(72,219)</u>
<u>FUND BALANCES:</u>			
Beginning of Year.....	<u>1,054,252</u>	<u>44,285</u>	<u>1,098,537</u>
End of Year.....	<u>\$ 982,878</u>	<u>\$ 43,440</u>	<u>\$1,026,318</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS (continued)
YEAR ENDED SEPTEMBER 30, 2010

RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES:

Net Change in Fund Balances - Total Governmental Funds \$ (72,219)

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as
expenditures. However, in the statement of
activities, the cost of those assets is allocated
over their estimated useful lives and reported
as depreciation expense:

Capital Outlays	806,006
Depreciation Expense	(626,634)

Revenues in the statement of activities that do not
provide current financial resources are not reported
as revenues in the funds:

Change in unavailable deferred property tax revenue	(5,325)
--	---------

The proceeds of debt issuance provides current financial
resources to governmental funds, but issuing debt
increases long-term liabilities in the statement of
net assets. Repayment of debt principal is an
expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the
statement of net assets:

Loan Proceeds	(477,709)
Debt repayments	<u>152,564</u>

Change in Net Assets of Governmental Activities	<u>\$ (223,317)</u>
---	---------------------

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND

NET ASSETS - WATER AND SEWER FUND

YEAR ENDED SEPTEMBER 30, 2010

OPERATING REVENUES:

Water Billings.....	\$3,229,345
Sewer Billings.....	1,146,872
Penalties.....	142,547
Service Taps.....	2,700
Miscellaneous.....	2,537
	<u>4,524,001</u>

OPERATING EXPENSES:

Personnel Cost.....	1,060,781
Depreciation and Amortization.....	536,394
Heat, Light and Power.....	493,566
Repairs and Maintenance.....	322,979
Insurance.....	111,292
Supplies and Chemicals.....	98,149
Telephone.....	63,593
Fuel.....	38,142
Water Purchases.....	20,118
Dues and Fees.....	17,422
Property Taxes.....	5,701
Miscellaneous.....	5,600
Uniforms.....	5,461
Travel.....	4,919
Lab Expense.....	3,987
Rents.....	2,748
	<u>2,790,852</u>

Income from Operations.....	<u>1,733,149</u>
-----------------------------	------------------

NONOPERATING REVENUES (EXPENSES):

Lease Income.....	77,818
Investment Income.....	17,556
Interest and Fiscal Charges.....	(223,190)
	<u>(127,816)</u>

Income Before Transfers.....	1,605,333
------------------------------	-----------

Transfers Out.....	<u>(300,000)</u>
--------------------	------------------

<u>NET INCOME (LOSS)</u>	1,305,333
--------------------------------	-----------

Net Assets - Beginning.....	<u>8,060,449</u>
-----------------------------	------------------

Net Assets - Ending.....	<u>\$9,365,782</u>
--------------------------	--------------------

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Customers.....	\$4,551,021
Other Operating Receipts.....	3,885
Cash Paid to Suppliers for Goods and Services.....	(1,136,115)
Cash Payments to Employees for Services.....	<u>(902,061)</u>
Net Cash Provided by (Used for) Operations.....	<u>2,516,730</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Rents Received.....	77,818
Transfers from Reserve Funds.....	1,525,570
Transfers to Other Funds.....	(300,000)
Transfers to Reserve Funds.....	<u>(916,189)</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>387,199</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and Construction of Capital Assets.....	(602,962)
Principal Paid on Bond Maturities.....	(985,000)
Interest and Fees Paid on Long-Term Debt.....	<u>(226,810)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(1,814,772)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment Income.....	14,509
Purchase of Certificates of Deposit.....	<u>(818,223)</u>
Net Cash Provided by (Used for) Investing Activities.....	<u>(803,714)</u>

<u>NET INCREASE (DECREASE) IN CASH</u>	285,443
Cash, Beginning of Year.....	<u>1,537,307</u>
Cash, End of Year.....	<u><u>\$1,822,750</u></u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND (continued)
YEAR ENDED SEPTEMBER 30, 2010

RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO
NET CASH PROVIDED BY (USED FOR) OPERATIONS:

Income (Loss) from Operations	\$1,733,149
Adjustments to Reconcile Net Income	
To Net Cash Provided by Operations:	
Depreciation	527,280
Amortization	9,114
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	18,147
(Increase) Decrease in Inventory	5,840
Increase (Decrease) in Water Deposits	12,758
Increase (Decrease) in Accounts Payable	207,855
Increase (Decrease) in Accrued Property Taxes	<u>2,587</u>
Net Cash Provided by (Used for) Operations	<u>\$2,516,730</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF FIDUCIARY NET ASSETS

SEPTEMBER 30, 2010

	Employee Retirement Fund
<u>ASSETS</u>	
Cash.....	\$ 3,863
Deferred Compensation Plan Assets.....	<u>133,091</u>
	<u>136,954</u>
<u>LIABILITIES</u>	
Due to General Fund.....	<u>3,863</u>
<u>NET ASSETS</u>	
Held in Trust for Employee Retirement.....	<u>\$ 133,091</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2010

	Employee Retirement Fund
<u>ADDITIONS</u>	
Employee Contributions.....	\$ 5,095
Investment Income.....	5,594
Total Additions	<u>10,689</u>
 <u>DEDUCTIONS</u>	
Benefits.....	1,112
Administrative Expenses.....	141
Total Deductions	<u>1,253</u>
 Change in Net Assets	9,436
 Net Assets - Beginning	<u>123,655</u>
 Net Assets - Ending	<u>\$ 133,091</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Hereford operates under a Council-Manager form of government and provides the following services: public safety, streets, sanitation and health, culture and recreation, public improvements, planning and zoning, airport operations, water and sewer utilities, and general administrative service. The following is a summary of the more significant policies:

A. The Reporting Entity:

The accompanying financial statements present the City's primary government and the component unit, Hereford Economic Development Corporation (HEDC), over which the City exercises significant influence. Significant influence or accountability is based on operational or financial relationships with the City (as distinct from legal relationships). The HEDC was incorporated in 1994 for the purpose of providing economic assistance to businesses located in or relocating to the City of Hereford and the surrounding area. Separate financial statements for the HEDC are not issued.

B. Government-Wide and Fund Financial Statements:

Government-Wide Financial Statements:

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements:

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and proprietary funds are reported in separate columns with composite columns for non-major funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued):

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for long-term debt principal and interest which are reported as expenditures in the year due.

D. Fund Types and Major Funds:

The City considers its General Fund and its Water and Sewer Funds to be major funds.

General Fund:

The General Fund is the primary fund of the City. It is used to account for all financial resources not accounted for in another fund.

Special Revenue Funds:

Special Revenue Funds are used to account for the proceeds of specific resources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds:

Capital Project Funds account for financial resources to be used for the acquisition and construction of major capital facilities, which are not financed by the Water and Sewer Fund.

Water and Sewer Fund:

The Water and Sewer Fund is used to account for operations of the utility system, which is financed and operated in a manner similar to private business enterprises. For the purpose of its statement of cash flows, the City considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Fiduciary Funds (not included in government-wide statements):

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments, or other funds.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

E. Capital Assets and Depreciation:

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, except for street paving, curbs and gutters. The City is not required to retroactively capitalize infrastructure and has not done so for governmental funds infrastructure. The City, however, will prospectively capitalize all infrastructure. The City's property, plant, equipment, and infrastructure are comprehensively reported in the government-wide statements. Donated assets are stated at fair value on the date donated. The costs of normal maintenance and repairs that do not add to the asset value or materially extend the useful lives are not capitalized. Capital assets, including those of the component unit, are depreciated using the straight-line method over the estimated useful lives of the assets. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the operations.

Estimated useful lives are as follows:

Buildings	40 Years
Improvements, Other than Buildings	10-40 Years
Machinery and Equipment	5-20 Years

F. LONG-TERM DEBT:

In the government-wide and proprietary fund financial statements, outstanding debts are reported as liabilities.

The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period and repayments of debt as expenditures of the current period.

G. USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. INVENTORIES:

Inventories are stated at the lower of cost (first-in, first-out method) or market.

NOTE 2 -- BUDGETS AND ACCOUNTABILITY:

The City Manager submits an annual budget in accordance with applicable state laws and regulations. The budget is presented to the City Commission for review, and public hearings are held to address priorities and the allocation of resources. Before the start of the next fiscal year, the City Commission adopts the budget for City operating funds. Once approved, the City Commission may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3 -- RESTRICTED ASSETS:

The General Fund has \$37,515 in cash, of which \$30,465 is restricted for police equipment and \$7,050 is restricted for sewer facility improvements. The Water and Sewer Fund has \$390,801 in cash, which is restricted for debt service of bonds payable in accordance with bond ordinances.

NOTE 4 -- LONG-TERM DEBT:

Long-term debt of the Governmental Funds as of September 30, 2010, consists of the following:

	<u>Balance</u> <u>9-30-09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9-30-10</u>
First Financial Bank, monthly payments of \$2,170, including interest at 4.0%, through February 2010, secured by street sweeper .	\$ 10,035	\$ -	\$ (10,035)	\$ -
First Financial Bank, monthly payments of \$1,905, including interest at 6.188%, through April 2012, secured by golf carts	54,324	-	(54,324)	-
First Financial Bank, monthly payments of \$4,378, including interest at 3.00%, through February 2012, secured by bulldozer	122,307	-	(49,540)	72,767
First Financial Bank, monthly payments of \$6,363, including interest at 3.00%, through February 2015, secured by compactor	-	353,630	(38,665)	314,965
First Financial Bank, monthly payments of \$2,225, including interest at 2.90%, through June 2015, secured by golf carts	-	124,079	-	124,079
	<u>\$186,666</u>	<u>\$477,709</u>	<u>\$ (152,564)</u>	<u>\$511,811</u>

Future maturities of long-term debt of the Governmental Funds are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$142,283	\$ 13,295	\$155,578
2012	115,708	9,222	124,930
2013	98,921	6,350	105,271
2014	101,969	3,302	105,271
2015	52,930	523	53,453
	<u>\$511,811</u>	<u>\$ 32,692</u>	<u>\$544,503</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 4 -- LONG-TERM DEBT (continued):

Long-term debt of the Water and Sewer Fund as of September 30, 2010, consists of the following:

	<u>Balance</u> <u>9-30-09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9-30-10</u>
Water and Sewer 1993 series revenue bonds, dated Oct. 1, 1993, due in annual installments through Sep. 1, 2010, bearing interest rates of 4.25% to 5.75% ...	\$ 280,000	\$ -	\$ (280,000)	\$ -
Water and Sewer 2001 series revenue bonds, dated Mar. 1, 2001, due in annual installments through Sep. 1, 2020, bearing interest rates of 4.50% to 5.00% ...	2,810,000	-	(190,000)	2,620,000
Water and Sewer 2003 series surplus revenue certificates of obligation, dated Jan. 22, 2003, due in annual installments through Sep. 1, 2012, bearing an interest rate of 3.90%	560,000	-	(180,000)	380,000
Water and Sewer 2008 series combination tax and revenue certificates of obligation, dated January 1, 2008, due in annual installments through Feb. 15, 2013, bearing an interest rate of 4.40%	1,440,000	-	(335,000)	1,105,000
	5,090,000	-	(985,000)	4,105,000
Plus unamortized premium on 1993 revenue bonds	155	-	(155)	-
	<u>\$5,090,155</u>	<u>\$ -</u>	<u>\$ (985,155)</u>	<u>\$4,105,000</u>

Future maturities of long-term debt of the Water and Sewer Fund are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 735,000	\$ 181,320	\$ 916,320
2012	780,000	148,965	928,965
2013	610,000	115,075	725,075
2014	240,000	96,480	336,480
2015	250,000	85,440	335,440
2016 to 2020	1,490,000	231,160	1,721,160
	<u>\$4,105,000</u>	<u>\$ 858,440</u>	<u>\$4,963,440</u>

Revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010

NOTE 5 -- EMPLOYEE RETIREMENT PLAN:

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City were as follows:

	<u>Plan Year 2009</u>	<u>Plan Year 2010</u>
Employee Deposit Rate	5.0%	5.0%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as age/years of service)	60/5,0/25	60/5,0/25
Updated Service Credits	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded(overfunded) actuarial liability(asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employee and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 5 -- EMPLOYEE RETIREMENT PLAN (continued):

Following is a summary of actuarial liabilities and funding progress for the last three actuarial valuations:

Actuarial Valuation Date	<u>12/31/09</u>	<u>12/31/08</u>	<u>12/31/07</u>
Actuarial Value of Assets	\$ 9,474,438	\$ 8,651,430	\$ 8,322,387
Actuarial Accrued Liability	12,270,905	11,247,300	10,872,584
Percentage Funded	77.21%	76.92%	76.54%
Unfunded Actuarial Accrued Liability (UAAL)	2,796,467	2,595,870	2,550,197
Annual Covered Payroll	3,577,814	3,495,761	3,159,802
UAAL as a Percentage of Covered Payroll	78.16%	74.62%	80.71%
Net Pension Obligation (NPO), Beginning of Period	-	-	-
Annual Pension Cost:			
Annual Required Contribution (ARC)	380,348	339,604	277,262
Interest on NPO	-	-	-
Adjustment to the ARC	-	-	-
	<u>380,348</u>	<u>339,604</u>	<u>277,262</u>
Contributions Made	380,348	339,604	277,262
Increase in NPO	<u>-</u>	<u>-</u>	<u>-</u>
NPO, End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 -- COMPENSATED ABSENCES:

Employees of the City of Hereford are entitled to paid vacation days and paid sick days depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. It is the policy of the City to recognize the costs of compensated absences when actually paid to employees.

NOTE 7-- CITY FARM LEASE:

The City owns farm land near its wastewater treatment facility and leases this land to an individual for agricultural purposes. The lease term is for one year beginning January 1, 2010, with an annual rental of \$62,500.

NOTE 8 -- WATER TOWER LEASE:

The City leases space on one of its water towers to a company for the operation of communications equipment. The initial term of the lease is for a period of ten years, beginning April 2001, with the lessee having the option to renew the lease for four additional periods of five years each. The annual lease is currently \$9,660, and the annual lease will be increased by 15% for each renewal period. The lessee may terminate this agreement upon thirty days prior written notice. The City also leases space on one of its water towers to other companies for the operation of communications equipment on a monthly lease for \$1,350 per month.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 9 -- CASH AND INVESTMENTS:

Deposits

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with its agent bank, approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The City's cash deposits were fully insured or collateralized as required by the state statutes at September 30, 2010. Deposits were properly secured at all times during the year.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

- Category 1: Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2: Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3: Deposits which are not collateralized.

Based on these three levels of risk, all of the City's cash deposits are classified as category 2.

Investments

Statutes authorize the City to invest in certificates of deposit, passbooks, banker's acceptances, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Investments at September 30, 2010, are stated at fair market value and consist of the following:

General Fund:

Certificates of Deposit	\$ 472,122
-------------------------	------------

Water and Sewer Fund:

Certificate of Deposit	1,296,436
------------------------	-----------

Component Unit HEDC:

Certificate of Deposit	2,283,936
	<u>\$4,052,494</u>

Similar to cash deposits, investments held at financial institutions can be categorized according to three levels of risk.

- Category 1: Investments that are insured, registered or held by the entity or by its agent in the entity's name.
- Category 2: Investments that are uninsured and unregistered held by the counter party's trust department or agent in the entity's name.
- Category 3: Uninsured and unregistered investments held by the counter party, its trust department or its agent, but not in the entity's name.

Based on these three levels of risk, all of the City's investments are classified as category 1.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010

NOTE 10 -- CAPITAL ASSETS:

Following is a summary of the capital asset activity for the year ended September 30, 2010:

	Beginning Of Year	Additions	Retirements	End Of Year
<u>Primary Government:</u>				
Governmental Activities:				
Non-Depreciable Assets:				
Land.....	\$ 614,289	\$ -	\$ -	\$ 614,289
Construction in Progress	-	36,664	-	36,664
Depreciable Assets:				
Buildings.....	2,427,338	88,055	-	2,515,393
Improvements.....	5,130,069	-	-	5,130,069
Machinery & Equipment.	6,116,239	751,288	(142,174)	6,725,353
	<u>14,287,935</u>	<u>876,007</u>	<u>(142,174)</u>	<u>15,021,768</u>
Accumulated Depreciation	<u>8,492,516</u>	<u>626,634</u>	<u>(72,174)</u>	<u>9,046,976</u>
Governmental Activities				
Net Capital Assets	<u>\$ 5,795,419</u>	<u>\$ 249,373</u>	<u>\$ (70,000)</u>	<u>\$ 5,974,792</u>
Business-Type Activities:				
Non-Depreciable Assets:				
Land.....	\$ 600,871	\$ 111,249	\$ -	\$ 712,120
Construction in Progress	3,141	269,613	-	272,754
Depreciable Assets:				
Buildings.....	804,706	-	-	804,706
Water and Sewer System	17,628,288	174,562	-	17,802,850
Machinery & Equipment.	1,335,274	47,538	-	1,382,812
	<u>20,372,280</u>	<u>602,962</u>	<u>-</u>	<u>20,975,242</u>
Accumulated Depreciation	<u>10,000,463</u>	<u>527,280</u>	<u>-</u>	<u>10,527,743</u>
Business-Type Activities				
Net Capital Assets	<u>\$10,371,817</u>	<u>\$ 75,682</u>	<u>\$ -</u>	<u>\$10,447,499</u>
Primary Government Net				
Capital Assets	<u>\$16,167,236</u>	<u>\$ 325,055</u>	<u>\$ (70,000)</u>	<u>\$16,422,291</u>
<u>Component Unit:</u>				
Hereford Economic Development Corp:				
Depreciable Assets:				
Furniture & Equipment.	\$ 16,972	\$ -	\$ -	\$ 16,972
	<u>16,972</u>	<u>-</u>	<u>-</u>	<u>16,972</u>
Accumulated Depreciation	<u>16,045</u>	<u>388</u>	<u>-</u>	<u>16,433</u>
Component Units Net				
Capital Assets	<u>\$ 927</u>	<u>\$ (388)</u>	<u>\$ -</u>	<u>\$ 539</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 10 -- CAPITAL ASSETS (continued):

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 39,514
Public Safety	174,887
Streets and Public Works ..	84,394
Sanitation and Health	578
Parks and Recreation	168,426
Airport	<u>158,835</u>
	<u>\$626,634</u>

NOTE 11 -- DEFERRED COMPENSATION PLAN:

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. PEBSCO is the independent plan administrator. Employees who choose to participate may elect the amount of their contributions, within legal limits, and defer federal income taxation on that portion of their salaries and the earnings thereon. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. Under the terms of IRC Section 457, the employee's contributions and all income attributable to the investment of such amounts are the property of the City until paid or made available to the participants or their beneficiaries. The plan assets represent a general liability of the City to its employees whose rights to the fair market value of their participant shares are equal to the rights of other general creditors.

It is the City's opinion that it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 12 -- INTERNAL BALANCES AND TRANSFERS:

Internal balances result from the time lag between the dates that (1) interfund reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Following is a summary of interfund balances:

	<u>Due From:</u>			<u>Total</u>
	<u>General Fund</u>	<u>Other Gov't Funds</u>	<u>Water & Sewer Fund</u>	
<u>Due To:</u>				
General Fund	\$ -	\$ 4,477	\$716,382	\$720,859
Other Gov't Funds	-	-	-	-
Water and Sewer Fund	-	-	-	-
	<u>\$ -</u>	<u>\$ 4,477</u>	<u>\$716,382</u>	<u>\$720,859</u>

The City makes transfers from the Water and Sewer Fund to the General Fund to subsidize expenses of the General Fund when considered necessary by city management. During the year the City transferred \$300,000 from the Water and Sewer Fund to the General Fund.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 13 -- RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE:

Significant receivables include amounts due from customers primarily for utility services and trash collection, and amounts due from property taxes receivable. Allowances for non-collectible accounts have been recorded based on the estimated amount of uncollectible accounts. The allowance in the general fund is \$7,233 and the allowance in the Water and Sewer Fund is \$6,297.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

In the governmental fund financial statements, property taxes receivable are recorded at the total amount of delinquent taxes owed at the fiscal year end. If delinquent taxes are not paid within 60 days of the fiscal year end, they are recorded as deferred revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when the cash is received. Over time, substantially all property taxes are collected.

NOTE 14 -- COMMITMENTS:

The City has been approved for a community development block grant for the construction of sewer system improvements. The total budgeted cost of the project is \$300,000. Included in the total amount is the City's commitment for matching funds in the amount of \$50,000. The City will provide the matching funds from its Water and Sewer Fund.

NOTE 15 -- SUBSEQUENT EVENTS:

In October, 2010 the City issued \$3,090,000 of general obligation refunding bonds. The proceeds from these bonds will be used to refinance existing bonds at a lower interest rate. The interest rates on the bonds range from 2.0% to 4.0% and the bonds are due in annual installments through 2020. At the same time, the City also issued \$1,500,000 of certificates of obligation. The proceeds from these certificates will be used for construction of water system improvements. The interest rates on the certificates range from 2.0% to 3.0% and the certificates are due in annual installments through 2017.

SUPPLEMENTAL INFORMATION SECTION

CITY OF HEREFORD, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Over (Under)
<u>REVENUES:</u>				
Property Taxes.....	\$1,618,319	\$1,618,319	\$1,680,059	\$ 61,740
Sales Taxes.....	1,210,000	1,210,000	1,193,518	(16,482)
Motel Occupancy Taxes.....	162,000	162,000	127,245	(34,755)
Franchise Taxes.....	966,000	966,000	963,503	(2,497)
Charges for Services.....	2,851,766	2,851,766	2,871,517	19,751
Grant Revenue.....	3,000	3,000	14,123	11,123
Interest Income.....	10,100	10,100	6,216	(3,884)
Contributions.....	9,000	9,000	10,374	1,374
Miscellaneous Revenue.....	29,800	29,800	16,100	(13,700)
	<u>6,859,985</u>	<u>6,859,985</u>	<u>6,882,655</u>	<u>\$ 22,670</u>
<u>EXPENDITURES:</u>				
Current:				
General Government	751,461	751,461	716,278	(35,183)
Public Safety	2,445,553	2,445,553	2,253,715	(191,838)
Streets and Public Works	993,700	1,113,700	1,177,898	64,198
Sanitation and Health ...	1,185,925	1,185,925	1,198,088	12,163
Parks and Recreation	1,174,825	1,174,825	1,270,904	96,079
Airport	225,517	225,517	242,198	16,681
Capital Outlay:				
Current Expenditures	283,274	283,274	708,118	424,844
Debt Service:				
Principal Retirement	195,000	195,000	152,564	(42,436)
Interest Charges	26,000	26,000	11,975	(14,025)
	<u>7,281,255</u>	<u>7,401,255</u>	<u>7,731,738</u>	<u>330,483</u>
<u>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES.....</u>	<u>(421,270)</u>	<u>(541,270)</u>	<u>(849,083)</u>	<u>(307,813)</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Loan Proceeds.....	-	-	477,709	477,709
Transfers In.....	580,000	580,000	300,000	(280,000)
	<u>580,000</u>	<u>580,000</u>	<u>777,709</u>	<u>197,709</u>
<u>NET CHANGE IN FUND BALANCES ..</u>	<u>158,730</u>	<u>38,730</u>	<u>(71,374)</u>	<u>(110,104)</u>
<u>FUND BALANCES:</u>				
Beginning of Year.....	<u>1,054,252</u>	<u>1,054,252</u>	<u>1,054,252</u>	<u>-</u>
End of Year.....	<u>\$1,212,982</u>	<u>\$1,092,982</u>	<u>\$ 982,878</u>	<u>\$ (110,104)</u>

CITY OF HEREFORD, TEXAS

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS SEPTEMBER 30, 2010

	Special Revenue		Capital Projects	Total Nonmajor Governmental Funds
	Office of Justice Programs Grant Fund	Voluntary Park Fund	TCDP Grant Fund	
ASSETS				
Cash	\$ -	\$ 17,452	\$ -	\$ 17,452
Due from State	-	-	8,914	8,914
Restricted Assets	30,465	-	7,050	37,515
Total Assets	<u>\$ 30,465</u>	<u>\$ 17,452</u>	<u>\$ 15,964</u>	<u>\$ 63,881</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ 15,964	\$ 15,964
Due to Other Funds	-	4,477	-	4,477
Total Liabilities	<u>-</u>	<u>4,477</u>	<u>15,964</u>	<u>20,441</u>
FUND BALANCES				
Designated for Parks	-	12,975	-	12,975
Designated for Police	30,465	-	-	30,465
Total Fund Balances	<u>30,465</u>	<u>12,975</u>	<u>-</u>	<u>43,440</u>
Total Liabilities and Fund Balances	<u>\$ 30,465</u>	<u>\$ 17,452</u>	<u>\$ 15,964</u>	<u>\$ 63,881</u>

CITY OF HEREFORD, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES **IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS** **YEAR ENDED SEPTEMBER 30, 2010**

	<u>Special Revenue</u>		<u>Capital</u>	<u>Total</u>
	<u>Office of</u>	<u>Voluntary</u>	<u>Projects</u>	<u>Nonmajor</u>
	<u>Justice</u>	<u>Park</u>	<u>TDA Grant</u>	<u>Governmental</u>
	<u>Programs</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
	<u>Grant Fund</u>			
REVENUES:				
Grant Revenue	\$ 30,421	\$ -	\$ 36,664	\$ 67,085
Interest Income	50	105	-	155
Contributions	-	46,144	-	46,144
	<u>30,471</u>	<u>46,249</u>	<u>36,664</u>	<u>113,384</u>
EXPENDITURES:				
Current:				
Public Safety.....	6	-	-	6
Parks and Recreations.....	-	16,335	-	16,335
Capital Outlay:				
Current Expenditures.....	-	61,224	36,664	97,888
	<u>6</u>	<u>77,559</u>	<u>36,664</u>	<u>114,229</u>
EXCESS (DEFICIT) OF REVENUES				
OVER EXPENDITURES	<u>30,465</u>	<u>(31,310)</u>	<u>-</u>	<u>(845)</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out	-	-	-	-
NET CHANGE IN FUND BALANCES	<u>30,465</u>	<u>(31,310)</u>	<u>-</u>	<u>(845)</u>
FUND BALANCES:				
Beginning of Year	-	44,285	-	44,285
End of Year	<u>\$ 30,465</u>	<u>\$ 12,975</u>	<u>\$ -</u>	<u>\$ 43,440</u>

CITY OF HEREFORD

SCHEDULE OF VALUATION AND GENERAL OBLIGATION DEBT HISTORY
LAST FIVE YEARS

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2006	14,597	323,357,811	22,152	1,060,000	0.33%	73
2007	14,597	359,399,564	24,621	900,000	0.25%	62
2008	14,597	414,201,088	28,376	2,460,000	0.59%	169
2009	14,597	470,756,016	32,250	2,000,000	0.42%	137
2010	14,597	488,190,882	33,445	1,485,000	0.30%	102

(1) Source: 2000 U.S. Census.

(2) As reported by the Deaf Smith County Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Does not include self-supporting debt.

CITY OF HEREFORD

SCHEDULE OF TAX RATE, LEVY AND COLLECTION HISTORY
LAST FIVE YEARS

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2006	0.3967	0.3967	-	1,281,185	97.90%	100.50%
2007	0.3890	0.3890	-	1,400,104	97.71%	100.17%
2008	0.3521	0.3521	-	1,462,200	98.35%	100.55%
2009	0.3500	0.3500	-	1,643,994	97.67%	98.76%
2010	0.3500	0.3390	-	1,654,967	97.87%	100.15%

CITY OF HEREFORD

SCHEDULE OF GENERAL OBLIGATION

DEBT SERVICE REQUIREMENTS

SEPTEMBER 30, 2010

Fiscal Year Ended 9/30	The Certificates			% of Principal Retired
	Principal	Interest	Total	
2011	535,000	55,740	590,740	70.54%
2012	565,000	32,685	597,685	88.06%
2013	385,000	8,470	393,470	100.00%
2014	-	-	-	
	<u>\$ 1,485,000</u>	<u>\$ 96,895</u>	<u>\$ 1,581,895</u>	

CITY OF HEREFORD

SCHEDULE OF OTHER GENERAL DEBT OBLIGATIONS
SEPTEMBER 30, 2010

Authorized But Unissued General Obligation Bonds - \$4,590,000.

As of September 30, 2010, the City of Hereford owed \$511,811 to First Financial Bank for financed golf carts, a financed landfill compactor, and a financed bulldozer. The City makes monthly payments of \$12,965, including interest. For additional information on these notes payable, please refer to Note -- 4 Long-Term Debt on page 20 in the Notes to Financial Statements.

CITY OF HEREFORD

**GENERAL FUND REVENUES AND EXPENDITURES HISTORY
LAST FIVE YEARS**

	Fiscal Year Ended September 30,				
	2010	2009	2008	2007	2006
Revenues:					
Taxes -- Property	\$ 1,680,059	\$ 1,648,404	\$ 1,498,845	\$ 1,409,644	\$ 1,294,849
Taxes -- Sales and Occupancy	1,320,763	1,429,614	1,764,279	1,472,198	1,151,295
Charges for Services	2,871,517	2,969,606	2,766,115	2,519,423	2,331,131
Franchise Taxes	963,503	1,107,939	1,026,319	787,568	794,792
Miscellaneous	16,100	110,152	41,227	15,197	5,506
Grant Income	14,123	55,051	-	28,274	28,570
Contributions	10,374	15,582	10,447	7,815	8,445
Investment Income	6,216	8,945	25,932	39,975	21,352
Total Revenues	<u>6,882,655</u>	<u>7,345,293</u>	<u>7,133,164</u>	<u>6,280,094</u>	<u>5,635,940</u>
Expenditures:					
General Government	716,278	679,160	662,793	619,202	579,266
Public Safety	2,253,715	2,127,922	2,141,136	2,018,728	1,927,473
Streets and Public Works	1,177,898	1,070,254	977,933	838,667	772,070
Sanitation and Health	1,198,088	1,215,303	1,074,326	1,056,279	961,585
Parks and Recreation	1,270,904	1,309,183	1,218,549	1,088,704	1,121,081
Airport	242,198	250,683	284,435	221,019	198,136
Capital Outlays	708,118	497,744	1,223,272	823,052	414,028
Debt Service:					
Principal Retirement	152,564	265,718	936,687	116,969	64,055
Interest and Fiscal Charges	11,975	12,012	33,927	18,088	8,754
Total Expenditures	<u>7,731,738</u>	<u>7,427,979</u>	<u>8,553,058</u>	<u>6,800,708</u>	<u>6,046,448</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(849,083)</u>	<u>(82,686)</u>	<u>(1,419,894)</u>	<u>(520,614)</u>	<u>(410,508)</u>
Other Financing Sources (Uses):					
Operating Transfers In	300,000	251	835,660	400,000	300,000
Settlement Proceeds	-	-	-	-	-
Sale of General Fixed Assets	-	-	-	-	15,156
Loan Proceeds	477,709	150,510	823,000	327,007	-
Operating Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>777,709</u>	<u>150,761</u>	<u>1,658,660</u>	<u>727,007</u>	<u>315,156</u>
Net Change in Fund Balances	<u>(71,374)</u>	<u>68,075</u>	<u>238,766</u>	<u>206,393</u>	<u>(95,352)</u>
Fund Balances:					
Beginning of Year	<u>1,054,252</u>	<u>986,177</u>	<u>747,411</u>	<u>541,018</u>	<u>636,370</u>
Ending of Year	<u>\$ 982,878</u>	<u>\$ 1,054,252</u>	<u>\$ 986,177</u>	<u>\$ 747,411</u>	<u>\$ 541,018</u>

CITY OF HEREFORD

SCHEDULE OF CURRENT INVESTMENTS
SEPTEMBER 30, 2010

As of 9-30-10, the City's investable funds were invested in the following categories:

<u>Type of Investment</u>	<u>Market Value</u>	<u>Maturity</u>
Certificate of Deposits	\$ 1,768,558	30 Days
Total	<u>\$ 1,768,558</u>	

As of such date, 100% of the City's investment portfolio will mature within 30 days.

CITY OF HEREFORD

WATER AND SEWER FUND CONDENSED STATEMENT OF OPERATIONS
LAST FIVE YEARS

	Fiscal Year Ended September 30,				
	2010	2009	2008	2007	2006
<u>OPERATING REVENUES:</u>					
Water Billings	\$ 3,229,345	\$ 3,099,086	\$ 2,813,041	\$ 2,101,702	\$ 2,203,484
Sewer Billings	1,146,872	1,051,787	1,040,669	949,827	917,987
Penalties	142,547	163,432	121,987	112,265	104,080
Miscellaneous	2,537	4,268	11,502	12,650	10,199
Service Taps	2,700	8,750	12,350	8,554	20,960
Total Operating Revenues	<u>4,524,001</u>	<u>4,327,323</u>	<u>3,999,549</u>	<u>3,184,998</u>	<u>3,256,710</u>
<u>OPERATING EXPENSES:</u>					
Personnel Cost	1,060,781	998,063	908,345	834,565	770,603
Depreciation and Amortization	536,394	532,702	475,035	438,218	426,131
Heat, Light and Power	493,566	498,135	594,088	424,678	496,222
Maintenance	322,979	390,668	508,943	232,249	269,430
Insurance	111,292	108,595	95,523	96,789	90,427
Supplies and Chemicals	98,149	99,302	102,256	71,807	72,504
Telephone	63,593	64,123	48,366	41,399	35,185
Water Purchases	20,118	36,496	17,208	16,199	21,832
Fuel	38,142	31,610	47,070	41,646	33,600
Dues and Fees	17,422	11,483	11,666	9,705	13,990
Miscellaneous	5,600	5,600	5,681	5,325	5,349
Uniforms	5,461	3,709	6,839	4,147	3,963
Travel	4,919	5,635	8,488	6,900	7,908
Rent	2,748	2,748	2,748	2,177	9,140
Property Taxes	5,701	2,161	549	1,648	2,155
Lab Expense	3,987	8,435	11,296	8,162	7,226
Total Operating Expenditures	<u>2,790,852</u>	<u>2,799,465</u>	<u>2,844,101</u>	<u>2,235,614</u>	<u>2,265,665</u>
Income from Operations	<u>1,733,149</u>	<u>1,527,858</u>	<u>1,155,448</u>	<u>949,384</u>	<u>991,045</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>					
Investment Income	17,556	12,946	35,203	66,425	36,656
Lease Income	77,818	73,360	73,360	87,493	100,763
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-
Interest and Fiscal Charges	(223,190)	(262,947)	(269,054)	(246,725)	(269,382)
Total Non-Operating Revenues (Expenses)	<u>(127,816)</u>	<u>(176,641)</u>	<u>(160,491)</u>	<u>(92,807)</u>	<u>(131,963)</u>
Income Before Transfers & Capital Contributions	1,605,333	1,351,217	994,957	856,577	859,082
Capital Contributions				-	-
Transfers In	-	-	953,262	-	4,880
Transfers Out	(300,000)	-	(1,092,822)	(400,000)	-
<u>NET INCOME (LOSS)</u>	<u>1,305,333</u>	<u>1,351,217</u>	<u>855,397</u>	<u>456,577</u>	<u>863,962</u>
Retained Earnings/Net Assets, Beginning (1)	8,060,449	6,709,232	5,853,835	5,397,258	4,533,296
Retained Earnings/Net Assets, Ending	<u>\$ 9,365,782</u>	<u>\$ 8,060,449</u>	<u>\$ 6,709,232</u>	<u>\$ 5,853,835</u>	<u>\$ 5,397,258</u>